

SunRice Grower Forum

A well funded and capitalised SunRice

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Group Chief Financial Officer



The Rice Food Experts

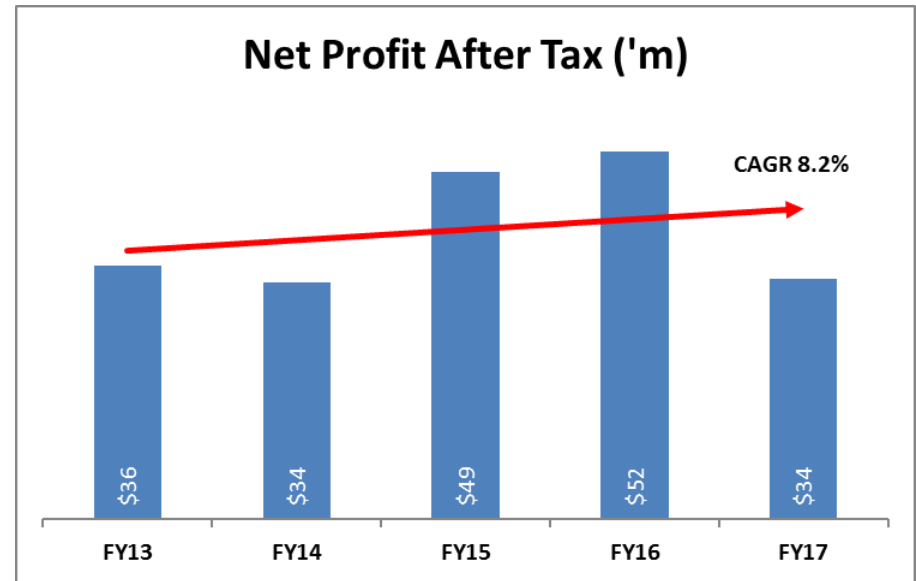
Background and Context

- You have heard from Rob about the strategy...
- Performance over the last six years has been strong
- ...and there are many exciting opportunities to profitably grow the business for the benefit of you, the growers and SunRice shareholders alike
- However these opportunities will require funding over the next five years
- SunRice's funding options are....
 - Profits
 - Cash tied up in the business
 - Surplus assets
 - Borrowing from the banks and
 - Raising equity



Sources of Funds – Profits

- SunRice's NPAT has averaged \$40 million over the last five years
- From this we have paid out on average 50% in dividends.
- Dividend represents the necessary return paid to shareholders on their investment
- Many of our shareholders depend on this income
- Funds available after paying dividends are generally around \$20 million



Profits represent a limited source of funds to support growth opportunities



Sources of Funds – Cash tied up in the Business

- \$280m at the end of April 2017
- Made up of
 - Money owed by customers (receivables) – minimise by timely collection
 - Stock and Inventory – optimise, customer service vs lead time less
 - Money owing to suppliers (payables) – maximise by agreeing reasonable and acceptable payment terms.

Impacted by size of harvest but some opportunity to further reduce over time.

\$m's	2013	2014	2015	2016	2017
Receivables	150	127	143	144	123
Inventories	456	413	495	454	372
Payables	(215)	(233)	(278)	(217)	(216)
NWC	391	307	360	380	279
NWC % of NSV	37%	27%	29%	30%	25%

Working capital represents a somewhat limited source of funds to support growth opportunities



Sources of Funds – Asset Sales

- SunRice has very few surplus assets
 - Banna Avenue
 - Hull Farm
 - PNG rental properties
- Limited buyers but.....
- Sale of these assets could potential raise around \$10 million one off

Asset sales is a limited source of one off funds to support growth opportunities



Sources of Funds – Debt

- Incremental 'core debt' borrowing capacity is ~\$100 million
 - Applying banking covenant on EBITDA multiple to the.....
 - EBITDA of the Obligor Group, which is a sub-group of SunRice that jointly guarantees debt facilities contracted in Australia
- Borrowing this amount would likely result in gearing of between 40-50%
 - ASX peer group average gearing is around 30%
- If \$100 million debt used to fund growth, any excess cash in years immediately following, would need to be used to reduce gearing levels back to an acceptable risk range
- Increased gearing exposes SunRice, if there is a.....
 - Market downturn: we operate in a cyclical industry
 - Drought impacting operations or if the
 - Banks call in borrowings

**Debt is a source of funding with
potentially increased risk**



Sources of Funds – Current Equity Raising Ability

- Dividend Reinvestment Plan (DRP):
 - Previous participation rates between 2006-2011 ranged from 27-36%
 - 30% of \$20 million dividend is \$6 million pa
 - DRP reactivated: 11% take up this year (\$2 million)
- Grower Share Purchase Plan (GSPP): likely to raise ~\$2 million pa
- B Class shareholder rights issue:
 - Last share issue undertaken in 2011 raised \$0.9 million
 - If we needed to raise \$150 million, that equates to \$70,000 per shareholder
- At current share price of \$4 any share issue
 - Expensive and dilutive for shareholders but also
 - Limited by B Class shareholder restrictions
 - Who can invest
 - Cap of 5% on ownership

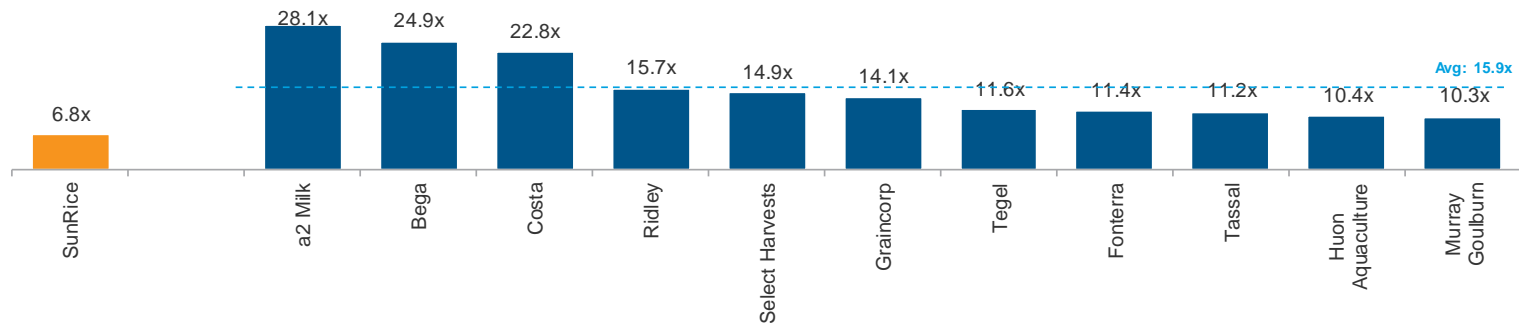
Raising equity at current share price is limited, expensive and dilutive.



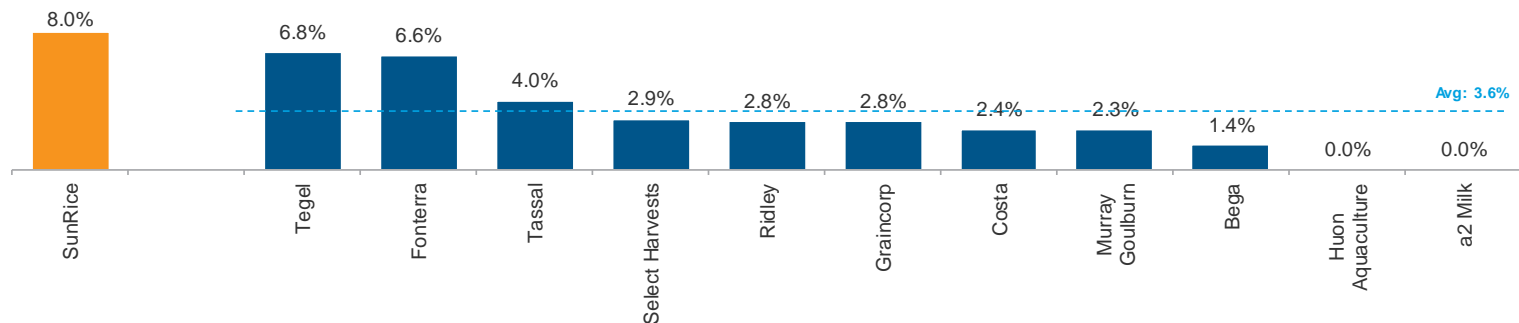
SunRice's Share trade at a significant discount...

- SunRice trades at a discount to its ASX listed peers on all measures, including Price to Earning ratios (PER)

FY18 PER



Dividend yield



Source: Factset, as at 27 July 2017, SunRice annual report 2017

Share price appreciation would benefit existing shareholders and facilitate a lower cost of capital



Sources of Funds – Summary so far.....

- Post dividend profits: limited to around \$20m pa
- Cash in business: opportunity to access \$50m one off
- Sale of surplus assets: scope to raise \$10m one off
- Debt: limited headroom with associated risk to raise ~\$100m one off
- Existing equity raising ability up to \$8m pa
- Total at a full stretch SunRice could raise \$150 – \$200M
- However it will take time, may be inefficient and will result in increased risk for a cyclical business like SunRice.

Current funding sources are not sufficient and/or well suited for SunRice to pursue growth.



Is 'External' Equity Capital an Option?

- Potential benefits would include:
 - Increase liquidity
 - Share price appreciation
 - Less expensive
 - Attract well funded investors
 - Less dilutive for shareholders
 - No recall (unlike debt funding)
 - Helps lower gearing levels
 - Timely and efficient process
- Would require opening up the share register to external investors
 - Some form of capital restructure

	As is	Open
Share Price	\$4	>\$7*
Cost of equity	16%	<10%
Dilutive	Yes	No
At Call	No	No
Risk	Low	Low
Raise	~\$8m	\$100m
Gearing	Small Impact	Lower

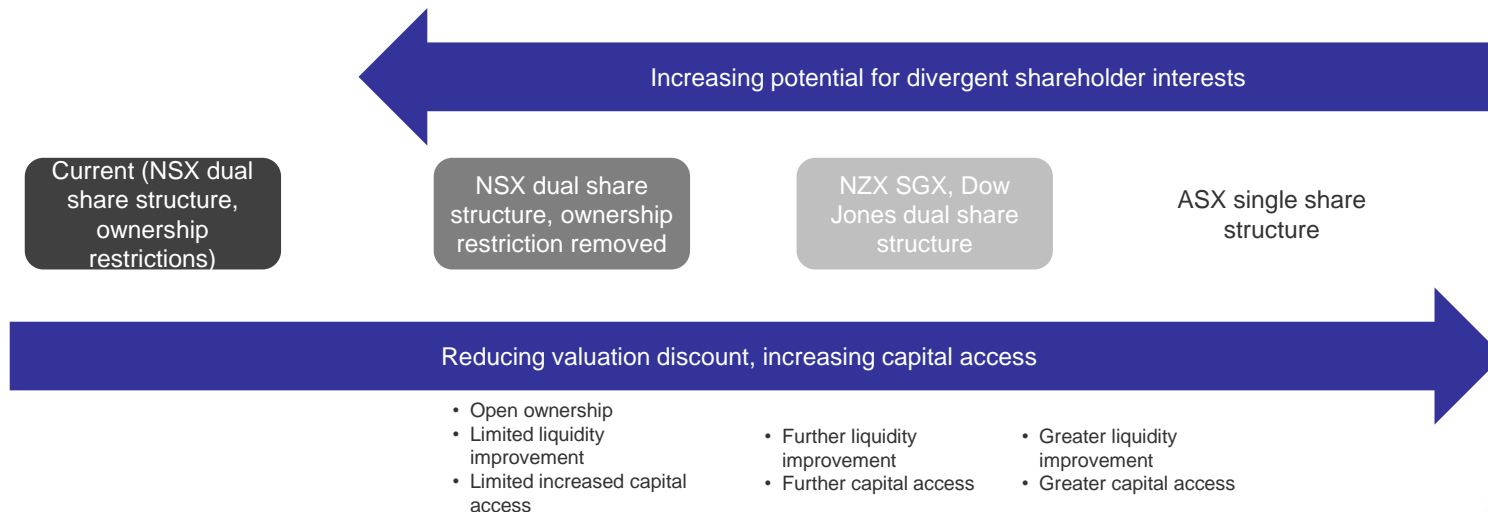
- CAPM suggest cost of equity is 10%. However, cost of equity based on P/E of 6x (\$4/share and EPS of 60c is 16%).
- Cost of equity comes down as share price rises: \$10/share and EPS of 60c implies P/E of 16x and a cost of equity of 6.25%.
- * This figure is for demonstration only and should not be taken as a reliable forecast of SunRice's potential future share price

External equity capital has the potential to provide a low cost, low risk form of funding



Where could SunRice Raise 'External' Equity?

- ASX is currently problematic for capital structures of agricultural companies
- NSX is flexible but limited.
- Stock exchanges present similarities, and relevant advantages and disadvantages
 - All address estate planning challenges and grower business re-arrangements
 - Potential increase in liquidity and valuation could be lower compared to ASX
 - Risk of increased shareholder divergence: new B Class shareholders could seek to benefit from perceived valuation discount.
 - Access to institutional capital providers could be limited depending on the index



There is a range from flexible but limited NSX to liquid but restrictive ASX



Sources of Funds – adding External Capital

- Post dividend profits: limited to around \$20m pa
- Cash in business: opportunity to access \$50m one off
- Sale of surplus assets: scope to raise \$10m one off
- Debt: limited headroom with associated risk to raise ~\$100m one off
- Existing equity raising ability up to \$8m pa
- Total at a full stretch SunRice could raise \$150 – \$200M

ADD

- External capital: low cost and risk (if share price appreciates) ~\$100 million
- External capital provides considerable funding power and, when combined with the other potential existing sources, would lower SunRice's relative cost of capital and risk profile.

Funding would approach levels required (\$200m – \$300m) to achieve growth strategy.



Conclusions

- We will need funds to pursue exciting growth strategy while managing risk
- There is a range of options
- Debt is appropriate, but relying solely on debt would increase risk profile
- Equity capital is important but has challenges
 - At current share price expensive and dilutive
 - Limited availability given current liquidity and register restrictions
 - Consider measures to remove current share ownership restrictions and price discount.
- Need for external capital whilst not urgent, will become more pressing



Thank you – Any questions

